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Dairy and Products

Annual

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Report Highlights:
Milk production in the short and medium term is expected to be at best steady, as the Russian dairy herd continues to contract as a result of low profitability and improper management. However, some leading producers are expanding output by bringing superior animals on line. Greater output would assist the expanding processing industry, which sees an opportunity to provide a wide range of dairy items to a population with growing disposable income.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Executive Summary

Russia's dairy herd continues to contract because of low profitability, insufficient management, economic transition, and unstable feed supplies. In fact, the domestic herd is now estimated to be six percent smaller than in December 2003, and could decline a further three percent by December 2005. As a result, milk production is about 2.5 percent lower in 2004, and forecast to at best hold steady in 2005. However, expanded employment of higher-producing pedigree dairy cattle has partially offset milk output lost from culled lower yielding cows.

Improvements are being made in Russia's milk processing sector, and with the growth of larger, well-managed dairies the supply of raw materials to these operations has become steadier and less seasonal. This will result in a more competitive overall dairy sector. Dairy was the only profitable branch of livestock husbandry in 2003 – its profitability was 6.4 percent in 2003.

Table 1. Fluid Milk Supply and Demand

PSD Table

Country	Russian Federation					
Commodity	Dairy, Milk, Fluid				(1000 HEAD)(1000 MT)	
	2003 USDA Official [Old]	Revised Post Estimate [New]	2004 USDA Official [Old]	Estimate Post Estimate [New]	2005 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		01/2003		01/2004		01/2005
Cows In Milk	11700	11700	11000	10970	0	10640
Cows Milk Production	33000	33000	32300	32200	0	32200
Other Milk Production	0	0	0	0	0	0
TOTAL Production	33000	33000	32300	32200	0	32200
Intra EC Imports	0	0	0	0	0	0
Total Imports	100	100	100	100	0	110
TOTAL Imports	100	100	100	100	0	110
TOTAL SUPPLY	33100	33100	32400	32300	0	32310
Intra EC Exports	0	0	0	0	0	0
Total Exports	5	5	5	5	0	0
TOTAL Exports	5	5	5	5	0	0
Fluid Use Dom. Consum.	13350	13350	13300	13000	0	13000
Factory Use Consum.	16700	16700	16095	16295	0	16410
Feed Use Dom. Consum.	3045	3045	3000	3000	0	2900
TOTAL Dom. Consumption	33095	33095	32395	32295	0	32310
TOTAL DISTRIBUTION	33100	33100	32400	32300	0	32310
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0

Large dairy processors, located for the most part in the major cities, are expanding production. To continue this process, they have begun to augment their traditional nearby sources with raw milk from other regions by offering a higher price. In doing so, they compete strongly with provincial processors, who are now finding it difficult to meet this competition because their customers can't afford to buy dairy products at the resulting higher prices. The overall situation has benefited milk producers.

Table 2. Production of dairy products

	2002	2003	January-September, 2004 as a percent of January-September 2003
Vegetable oil	1,186	1,637	127.2
Margarine products	516	541	102.3
Butter	278	272	93.8
Whole-milk products (milk equivalent)	7,452	7,728	102.6
Fat cheese (including feta	318	333	97.9
Ice cream	376	387	95.9
NFDM	104	105	n/a
milkdw	92	87.4	N/a.

Source: Russian State Statistics Service

Cheese production during January-September 2004 was two percent lower than in January-September 2003. However, full year 2004 cheese production is expected to be steady as compared to 2003 as better feedstuff supply supported raw milk output in the second half of 2004. Cheese production in 2005 is expected to increase slightly.

Table 3. Cheese Supply and Demand

PSD Table						
Country	Russian Federation					
Commodity	Dairy, Cheese				(1000 MT)	
	2003 USDA Official [Old]	Revised Post Estimate [New]	2004 USDA Official [Old]	Estimate Post Estimate [New]	2005 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		01/2003		01/2004		01/2005
Beginning Stocks	8	8	10	10	0	12
Production	335	335	330	330	0	335
Intra EC Imports	0	0	0	0	0	0
Total Imports	175	175	175	190	0	185
TOTAL Imports	175	175	175	190	0	185
TOTAL SUPPLY	518	518	515	530	0	532
Intra EC Exports	0	0	0	0	0	0
Total Exports	10	10	10	10	0	10
TOTAL Exports	10	10	10	10	0	10
Human Dom. Consumption	498	498	505	508	0	510
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	498	498	505	508	0	510
TOTAL Use	508	508	515	518	0	520
Ending Stocks	10	10	0	12	0	12
TOTAL DISTRIBUTION	518	518	515	530	0	532
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Butter production decreased by six percent in the first nine months of 2004 due to shortages in the supply of raw milk. As with cheese output, analysts expect that an improved supply of feedstuffs for the dairy industry in 2005 will support raw milk output and hold butter production steady, year-to-year.

Table 4. Butter Supply and Demand

PSD Table

Country	**Russian Federation**					
Commodity	**Dairy, Butter**				(1000 MT)	
	2003 USDA Official [Old]	Revised Post Estimate [New]	2004 USDA Official [Old]	Estimate Post Estimate [New]	2005 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		01/2003		01/2004		01/2005
Beginning Stocks	22	22	17	17	17	15
Production	280	280	275	270	0	275
Intra EC Imports	0	0	0	0	0	0
Total Imports	135	160	135	170	0	170
TOTAL Imports	135	160	135	170	0	170
TOTAL SUPPLY	437	462	427	457	17	460
Intra EC Exports	0	0	0	0	0	0
Total Exports	5	5	5	5	0	5
TOTAL Exports	5	5	5	5	0	5
Domestic Consumption	415	440	405	437	0	440
TOTAL Use	420	445	410	442	0	445
Ending Stocks	17	17	17	15	0	15
TOTAL DISTRIBUTION	437	462	427	457	0	460
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

As an input for milk product production, dry milk is not as critical for milk product producers as before because the supply of fluid milk throughout the year is becoming more stable.

Table 5. Whole Milk Powder Supply and Demand

PSD Table

Country Russian Federation

Commodity Dairy, Dry Whole Milk Powder

(1000 MT)

	2003 USDA Official [Old]	Revised Post Estimate [New]	2004 USDA Official [Old]	Estimate Post Estimate [New]	2005 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		01/2003		01/2004		01/2005
Beginning Stocks	0	0	0	0	0	0
Production	110	110	100	90	0	85
Intra EC Imports	0	0	0	0	0	0
Total Imports	20	20	25	25	0	25
TOTAL Imports	20	20	25	25	0	25
TOTAL SUPPLY	130	130	125	115	0	110
Intra EC Exports	0	0	0	0	0	0
Total Exports	6	6	6	6	0	5
TOTAL Exports	6	6	6	6	0	5
Human Dom. Consumption	124	124	119	109	0	105
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	124	124	119	109	0	105
TOTAL Use	130	130	125	115	0	110
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	130	130	125	115	0	110

Table 6. NonFat Dry Milk Supply and Demand

PSD Table

Country	**Russian Federation**					
Commodity	**Dairy, Milk, Nonfat Dry**				(1000 MT)	
	2003 USDA Official [Old]	Revised Post Estimate [New]	2004 USDA Official [Old]	Estimate Post Estimate [New]	2005 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		01/2003		01/2004		01/2005
Beginning Stocks	0	0	0	0	0	0
Production	145	145	140	125	0	120
Intra EC Imports	0	0	0	0	0	0
Total Imports	60	60	65	65	0	60
TOTAL Imports	60	60	65	65	0	60
TOTAL SUPPLY	205	205	205	190	0	180
Intra EC Exports	0	0	0	0	0	0
Total Exports	25	25	25	20	0	15
TOTAL Exports	25	25	25	20	0	15
Human Dom. Consumption	180	180	180	170	0	165
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	180	180	180	170	0	165
TOTAL Use	205	205	205	190	0	180
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	205	205	205	190	0	180

Consumption

Butter consumption is decreasing in the Russian Federation, because reduced fluid milk availability does not permit enough butter to be produced. In addition, low prices for other fat containing products like vegetable oil and margarine have caused consumers to substitute them for dairy butter. Finally, tastes and preferences have come into play. Consumers are becoming dissatisfied with some "dairy butter" products that in fact contain a large portion vegetable fat, driving down overall demand.

Trade

Imports of dairy products depend on two factors. The first one is the ability of domestic producers to satisfy customers' demand, and the second is the ability of customers to buy dairy products at the offered price. Both factors ultimately depend on disposable income. Stable production of dairy products together with income growth has resulted in slightly growing imports of most of dairy products.

Real income, adjusted for inflation, was 9.2% higher in January-August 2004 than in January-August 2003. The average employee wage was tentatively $237 in August 2004, up 24.5% year-to-year. In January-August 2004, the average salary was $227 or 25.5% more year-to-year.

Table 7. Russia's Imports from all Sources, Selected Items, January – May, MT

HS Code	Description	2002	2003 -	2004
	04 DAIRY,EGGS,HONEY,ETC			
0406	CHEESE AND CURD	42,984	63,363	78,211
0405	BUTTER,OILS FROM MILK	48,524	55,522	49,627
0402	MILK,CREAM CONC,SWEET	5,585	8,082	19,831
0403	BUTTERMLK,YOGURT,ETC	19,276	11,761	13,239
0404	WHEY,OTHER MILK PRODS	2,579	7,114	15,679
0407	BIRD EGG+SHELL			
0401	MILK,CREAM,N SWT/CONC	1,871	4,018	4,271

Source: World Trade Atlas

Stocks

Domestic dairy product stocks have become more stable, due to improvements in production systems for raw milk and regular imports. A better-developed system of wholesale and retail trade allows stocks of dairy products to now be kept at a more reasonable level.

Policy

Emerging large dairy enterprises are creating a better raw milk supply system. Still, about 70 percent of dairy farms are said to be inefficient. As an example of the contrast between traditional and new businesses, average annual output per cow, although growing, is only 2,976 liters, while modern farmers in Leningrad oblast produce 6,100 liters per cow from the region's 130,000 cow herd. About 15-20 percent of the most modern dairy farms are producing 80 percent of Russia's milk.
Belgorod oblast is putting into place a program to develop its dairy industry with investments from a large Moscow-based company. The new dairy farms will be equipped with modern

imported milking and storage equipment. The oblast has already brought together a 1,500 cow herd, with a goal of a 150,000-170,000 herd for an investment of about 15 billion rubles.

Wimm-Bill-Dann, the country's major dairy processing firm, plans to expand its agricultural business in Krasnodar oblast. Wimm-Bill-Dann already has a dairy farm with 2,500 cows in Volgograd oblast, with average milk yields from 7,000 to 8,000 liters, much higher than the average figure for all of Russia. Wimm-Bill-Dann Food Products is also holding talks on buying two dairy plants in Perm oblast (Ural region). The company plans to produce dairy products of the medium and high price category in the region and distribute them to the Ural region. Danone is showing interest in buying a dairy food plant that is owned by Perm region. However, no official talks on Danone buying this plant have taken place. The Perm oblast Ministry of Agriculture plans to reconstruct its dairy industry. Consumption is growing but at the expence of trade from outside of oblast. There is a danger that the other regions will win in Perm oblast. Highly processed dairy products are in demand amongst customers – yogurt, farmers cheese ("tvorozhki"), dairy products enriched with bioadditives and others that are not commonly produced in the oblast. Packaging and marketing will also need to be further developed.

Tyumen oblast has invested 100 million rubles to equip raw milk collection points for small producers. Chillers, quality measures, and transportation will be bought in to help to improve raw milk quality. There are about 550 milk collection points in the oblast, which are owned by the municipalcities and private entities. The number will reach 700 soon and will cover 60 percent of the territory of Tumen oblast.

Russian milk producers have requested protection against dry milk imports from the Ukraine and Belarus. These imports are from 6-10 rubles per kilogram cheaper than the locally produced milk, making domestically produced dry milk uncompetitive. To approve these protective measures, the plan needs approval from 50 percent of the 160 dry milk producers in the Russian Federation.

Marketing

Certification

The Lianozovsky Dairy Plant, Wimm-Bill-Dann Food Product's leading enterprise, has received a license to export dairy products to the European Union. The EU and Russian Agriculture Ministry veterinary services inspected plants that include the entire production cycle for dairy products and also the plant's raw materials base. The company's dairy plant and baby milk product plant will also soon undergo inspections for export licenses. Wimm-Bill-Dann wants to receive licenses so that they can expand export potential. The company is currently holding talks with retail networks in Latvia, Lithuania and Germany on possible dairy exports under the trademarks "Neo", "Bio Max", "Chudo", "Domik v Derevne" and "Ryzhy Ap" by the end of 2004.

The Altaikholod (Barnaul) and Lipetsk Refrigeration plants have also received export licenses.

Adulterated Condensed Milk

The State Trading Inspectorate has discovered adulterated condensed milk in a number of large supermarket chains in Moscow and St. Petersburg. During inspections, 22% of inspected milk was destroyed. Reportedly, the main infraction was the inclusion of vegetable fat, instead of butterfat, which contradicts government standards. Further, the labels also did not contain information on the amount of vegetable fat in the product.

Table 8: Russian Cheese Imports, by Countries, in 2001, 2002, and 2003, MT

	Country	2001	2002	2003
0	The World	111,581	129,282	176,288
1	Germany	38,733	43,225	57,392
2	Ukraine	28,796	34,523	58,081
3	Finland	11,940	15,287	15,952
4	Lithuania	9,353	11,268	11,021
5	Poland	6,562	6,374	9,102
6	Netherlands	5,166	7,455	8,873
7	New Zealand	4,457	3,416	2,242
8	Sweden	2,170	1,524	1,101
9	France	846	1,790	3,509
10	Austria	684	328	1,151

Source: World Trade Atlas

Table 9: Russian Butter Imports, by Countries, in 2001, 2002, and 2003, MT

	Country	2001	2002	2003
0	--The World--	109,104	109,924	133,796
1	New Zealand	20,004	41,805	36,735
2	Finland	15,306	17,931	19,524
3	Germany	1,769	5,389	16,596
4	Ukraine	49,940	13,063	12,314
5	Belgium	247,400	3,065	10,994
6	Czech Republic	7,595	9,306	8,358
7	Netherlands	363	1,152	7,176
8	Sweden	2,093	3,183	4,485
9	Uruguay	0	2,586	3,748
10	Australia	4,736	4,167	3,264
11	France	1,073	1,246	1,614

Source: World Trade Atlas